



Vanguard®

Investment fundamentals
An introduction to the basic concepts of investing



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The value of investments, and the income from them, may fall or rise and investors may get back less than they invested.

Investment fundamentals aims to demystify the process of using money to make money and give you a basic introduction to the key investment topics.

This guide takes you through:

- 1** Getting ready to invest, including goal setting and understanding the impact of cost and risk.
- 2** The importance of asset allocation and the different asset classes.
- 3** The different types of investment management.
- 4** Looking after your investments over time.

From reading this guide you will understand the fundamentals of investing and the key steps needed to begin to work with your financial adviser to develop your investment plan.

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Getting ready to invest

To get ready to invest you will need to reflect upon a number of fundamental things about both yourself and the world of investments.

Saving versus investing

Quite simply, you invest to create and preserve wealth.

Saving for the deposit on a new car or next year's holiday is different from investing to achieve a long-term goal, such as building up a retirement pot or paying school fees.

Saving generally involves putting money into a bank or building society account or money market fund that is relatively safe and pays a fixed, although typically low rate of interest.

However, a savings plan may not earn you wealth enhancing returns over the long term and taking into account the impact of inflation the real purchasing power of your money will likely decline.

Investing, on the other hand, can help you to both create and preserve your wealth. By taking an appropriate level of risk you may have the opportunity to earn potentially higher long-term returns. It is important to remember that the value of investments, and the income from them, may fall or rise and investors may get back less than they invested.

Money market fund

A money market fund invests in short-term investments such as sterling treasury bills (issued by the UK government).

Money market funds are relatively liquid, meaning that generally you can access your money fairly easily.

Getting started – discipline and planning are key

Becoming a successful investor requires both planning and discipline.

Planning means thinking carefully about everything you need to consider when developing your investment plan, including:

- 1 Defining your goals and your investment time frame.
- 2 Understanding asset allocation.
- 3 Looking after your investments over time.

Discipline means keeping market movements into perspective, recognising the potential impact of risk and regularly rebalancing your portfolio.

It is also important to live within your means and decide how much you will set aside for investing before you start to develop your plan.

We look at each of these in more detail in the pages ahead.

Define your goals and investment time frame

Work out what you want to achieve from your investments and define your investment time frame.

Your investment time frame provides a framework for deciding which investments to choose.

People have different goals at different stages of their lives. For example, if you are retired, you may simply want to maximise the amount of income you receive. Whereas, your longer-term focus might be building financial security for you and your family.

Whatever your goals and your time frame for investing, it is important to be realistic about what you can afford to invest and how best to manage your investments.

If you are unsure of what type of investments may suit you, you might find it helpful to seek the advice of a qualified financial adviser.

Invest for the long term

The old saying 'time is money' sums up precisely why it's so important to invest for the long term.

Your financial goals may include launching a business, leaving a legacy for your heirs or supporting a favourite charity. Whatever they may be, one of the best ways for you to reach them is to invest over a long period of time.

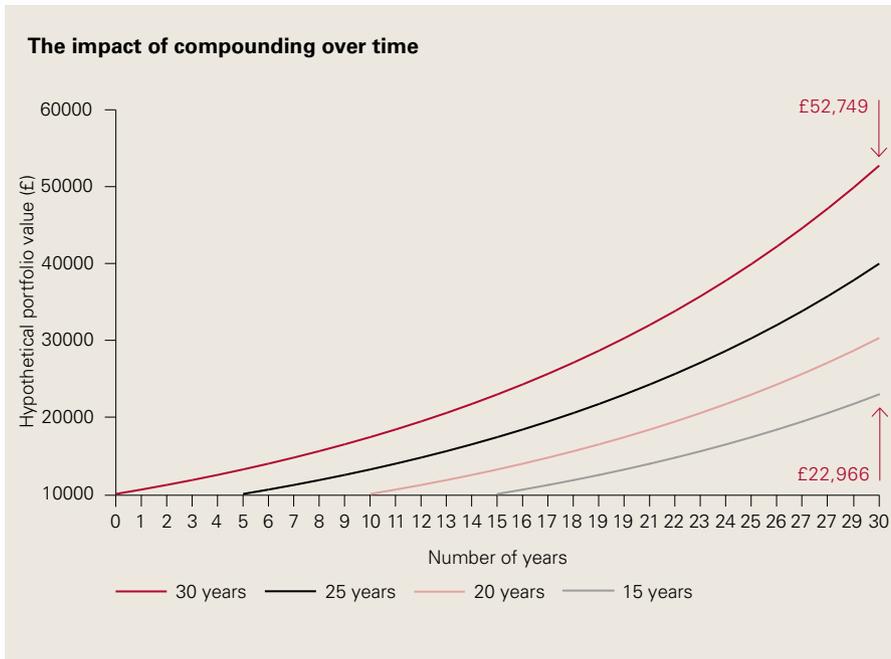
That's because the effects of compounding the returns you receive from your investments over time can be significant.

In fact, compounding is the engine that powers long-term investment returns. It happens as you reinvest your returns, then reinvest the returns on those returns, and so on.

The chart on the next page illustrates the power of compounding over time.

Compounding

Where interest is paid on both the initial investment and any interest reinvested during the period. Over time, compounding has the potential to increase gains significantly.



This hypothetical graph shows the growth of a £10,000 initial investment over different time periods. For simplicity, the graph assumes a 6% annual income, excluding capital growth, and 0.3% annual investment costs. It demonstrates that the longer you hold your investment while reinvesting your income, the bigger the potential impact.

For example, over thirty years, the initial investment would have grown to £52,749 if all income had been reinvested. In comparison, over a fifteen year period, the initial investment would only have grown to £22,996.

As this is a hypothetical example it does not reflect any particular investment. It is important to remember that forecasts are not a reliable indicator of future performance and the value of investments and the income from them may rise as well as fall.

Decide if you need income, growth or both

Investments are divided into income assets and growth assets. One of the key investment decisions you need to make during the planning stage is whether you require income, growth or a bit of both from your investments.

Growth assets

These are designed to provide most of their returns in the form of capital growth over time. Growth assets include UK and international equities, and property investments. Over the longer term, these assets can help to protect against inflation.

Therefore, investors with a longer investment time frame tend to invest in a higher proportion of growth assets. Growth assets tend to have more volatile returns over the shorter term, but they have the potential to produce higher returns over the longer term.

Income assets

These primarily provide returns in the form of income and include cash investments, bonds and certain equities. Income assets tend to provide more stable, but lower returns.

If your primary need is for income you may benefit from holding a higher proportion of income assets.

Having decided whether you require more income or more growth from your investments, you can go on to working with your financial adviser to develop your investment plan.

Understand the risks

A number of specific risks can affect your investments. As part of developing your investment plan you should understand the potential risks.

One of the ways to define risk is the likelihood that an investment's actual return will differ from expectations.

Country risk

The risk that domestic events – such as political upheaval, financial troubles, or natural disasters – will weaken a country's financial markets.

Currency risk

The risk that changes in currency exchange rates cause the value of an investment to decline.

Inflation risk

Inflation is a measure of the rate of increase in general prices for goods and services. The most familiar measure in the UK is the Retail Price Index (RPI).

The risk that inflation poses is that it can erode the value or purchasing power of your investments.

Liquidity risk

The chance that an investment may be difficult to buy or sell.

Market risk

There are risks associated with the majority of asset classes. This is what professionals call market risk. Market risk is the risk that investment returns will fluctuate across the market in which you are invested.

Short fall risk

Short fall risk is a possibility that your portfolio will fail to meet your longer-term financial goals.

Market correction

A temporary downward movement in an otherwise healthy equity or bond market.

Diversify to minimise risk

Spreading your money across a range of investments is one of the best ways to reduce risk and protect against sudden falls in any particular market, sector, or individual investment.

With a diversified portfolio of investments, returns from better performing investments can help offset those that under perform.

Diversification alone does not ensure you will make a profit, nor protect you fully against losses in a declining market. But it can reduce the risk of experiencing a serious loss of wealth as the result of being over-committed to a single investment.

With your financial adviser's help, you can spread your potential risk by investing in a mix of investments.

That way, when some investments are under performing, other investments can carry the load and help to even out the ups and downs in your portfolio.

Recognise the importance of cost and tax

When considering your investment plan, you need to think about a number of costs. The most common ones are highlighted in the table.

There are costs and charges in making any investment. By keeping costs to a minimum, you improve your potential returns.

Initial charge	This represents the charge the fund manager applies for absorbing your investment into a portfolio and is a percentage of your initial investment.
Exit fee (or redemption fee)	Fund management companies sometimes levy an exit fee and generally return the proceeds to the fund to cover the costs of selling the underlying securities. This protects existing investors from the costs incurred by those transactions.
Annual Management Charge (AMC)	The Annual Management Charge (AMC) covers the fund manager's ongoing costs of managing a fund.
Ongoing Charges Figure (OCF)	Each share class of a Fund, or unit class in the case of FTSE Unit Trust Funds, has an Ongoing Charges Figure (OCF) which is based on projected expenses for a given period. We review these projections regularly to make sure they are appropriate. The OCF covers administration, audit, depositary, legal, registration and regulatory expenses incurred in respect of the Funds. The Funds' Authorised Corporate Director or the Managers for Vanguard Investment Series and Vanguard Funds plc will usually pay those fees out of its periodic annual management charge (AMC), which means that the OCF will normally equal the AMC. There may, however, be certain extraordinary expenses which cause the OCF to exceed the AMC. The OCF does not include portfolio transaction costs incurred by a Fund or the cost of subscribing for, or redeeming, shares or units in a Fund.
Stamp Duty Reserve Tax	Stamp Duty Reserve Tax (SDRT) is paid to HM Revenue & Customs when buying UK stocks. Stamp Duty Reserve Tax applies when UK stocks are bought and when shares of a fund investing in UK stocks are redeemed and subsequently reissued.

The way you invest

The costs you incur will also depend on whether you manage your investments through a financial adviser or if you buy them directly.

Investing directly

If you prefer to manage your own portfolio costs will vary depending on how you invest. If you invest directly in pooled funds you can expect to pay some or all of the costs detailed on the previous page.

If you invest directly in the underlying securities, such as equities or bonds, you will need to pay brokers' fees on each transaction, which can vary enormously depending on the type of broker and service offered. You may also have to pay a regular brokerage account management charge.

Investing through a financial adviser

A financial adviser can help you build a portfolio that is right for your risk and return requirements. If you receive investment advice, you will also bear the cost of that advice or service.

Tax

After investment costs and inflation, taxes take the biggest bite out of your returns.

Certain taxes such as Stamp Duty Reserve Tax cannot be avoided when investing in UK stocks. However, you can make your portfolio as tax-efficient as possible by making use of tax breaks, such as Individual Savings Accounts (ISAs), and Capital Gains Tax (CGT) allowances.

Pension savings in the UK also attract significant levels of tax relief and represent another important way that you can make your investments more tax efficient.

Tax is a complex issue and will depend on your personal circumstances and should therefore be discussed with your adviser.

Individual Savings Accounts (ISAs)

These are tax efficient savings or investment vehicles that allow you to save and invest a limited amount, each year. There are two kinds of ISA: stocks and shares ISAs, and cash ISAs. All income you earn and capital gains you make on funds and cash held within an ISA are free of tax.

Capital Gains Tax (CGT)

CGT is a tax charged on the profits or gains from the sale of an individual's possessions which exceed a set amount each year. Some gains are exempt from CGT, such as a person's main residence, ISAs, National Savings & Investment Bonds, and payouts from life insurance policies and payouts from certain life insurance policies.

Asset allocation

The next step to understanding the fundamentals of investing is to examine the process of spreading your money across the different types of investments in order to meet your investment objectives.

Understand asset allocation

Asset allocation is one of the key ingredients of a successful investment strategy.

Asset class

A category of assets, such as equities/stocks, bonds, cash or property. Investments within an asset class have similar characteristics.

With an understanding of your investment goals, time frame and risk, you can work with your financial adviser to begin to create an asset allocation for your portfolio. Asset allocation simply means deciding how to spread your money across the different asset classes (including equities, bonds, property and cash) and how much you want to hold in each. It also means selecting a mix of asset classes that reflects your investment objectives, time frame and attitude to risk.

Asset class	Key characteristics	Potentially suitable for
Equities/stocks	Potential for capital growth, and may offer income through the payment of dividends. You can choose to invest in UK and overseas companies.	Medium-to-long-term investors (five years plus).
Bonds	Can provide a steady and reliable income stream with potential for capital growth and usually offers a higher interest rate, or yield, than cash. Includes UK government bonds (gilts), overseas government bonds, and company loans (corporate bonds).	Short, medium or long-term investors.
Property	Provides the benefits of diversification through access to properties in retail, office, industrial, tourism and infrastructure sectors. You can invest in both UK and international property.	Medium-to-long-term investors (five years plus).
Cash	May be suitable for short-term needs, such as an impending down payment on a new home. Usually includes higher interest paying securities, as well as bank and building society accounts or term deposits (a cash deposit at a financial institution that has a fixed term).	Short-term investors (up to three years).

Equities

Equities, also sometimes called stocks or shares, represent ownership in a company. This ownership gives you the right to share in that company's future financial performance.

Of the major asset types equities, bonds, property and cash, history has shown that equities have the highest potential to deliver strong returns over the long-term. That's why many people who invest for the long run make equities the biggest portion of their portfolios. But remember that equities can be volatile.

When a company is doing well, it may decide to pay out some of its profits by distributing dividends to shareholders. Or it might reinvest those profits in the business in the hope of increasing future sales – which, in turn, may increase the value of your shares. But if the company runs into trouble, the value of your holding could drop or even be wiped out.

It is important to remember that the value of investments, and the income from them, may fall or rise and investors may get back less than they invested.

Dividend

A dividend is a payment made by a company to its shareholders. The level of dividend payments is determined by both the company's earnings and its management strategy.

Bonds

A bond is a loan made to the bond's issuer, which could be a company, a government, or some other institution.

Bonds can be useful in a portfolio as they provide income, typically paid twice a year. Bonds are issued for a set period and when that period expires – in other words, when the bond reaches its maturity – the issuer will, repay the face value of the bond.

You may include bonds in your portfolio to help offset some of the volatility of equities, since bond and equity prices often move in opposite directions. But even when they don't, movements in bond prices tend to be less volatile than those of equities. And the regular interest payments that bonds generate can be reassuring when equity prices fall.

Fixed interest investments

As bonds typically offer regular payments of a fixed amount of interest, they are sometimes called fixed interest or fixed income investments.

Types of bonds

Bonds are issued by a variety of institutions.

UK government bonds, also called gilts, are generally assumed to have a zero risk of default as they are backed by the UK government. The interest rate paid (or 'coupon') is therefore relatively low.

Companies also issue bonds (called corporate bonds). These provide credit to help finance a variety of operations, as an alternative to issuing shares or borrowing from a bank. As you would expect, corporate bonds tend to be safer when issued by reputable companies and riskier when issued by weak companies. Typically, financially stronger companies issue bonds that pay less interest than those offered by financially weaker companies.

For example, a start-up biotechnology firm might issue a five-year bond which pays a high rate of interest because it is deemed to be more risky. It has to pay this rate of interest in order to persuade investors to take on the higher risk involved. Bonds like these are therefore called 'high yield bonds' and are sometimes called 'junk bonds'. However, a large stable FTSE 100 company making solid long-term profits might pay a substantially lower rate of interest because it is perceived as being relatively safe. These are often referred to as 'investment grade bonds'.

Credit rating agencies, such as Standard & Poor's or Moody's, rate bond issuers according to their credit worthiness, in the same way that individuals are given a credit score by banks. These ratings can be a useful starting point for understanding the credit worthiness of a bond.

Property

For most people, their major investment in property will be owning their own home.

As home ownership represents a significant proportion of an investors' wealth, many people will decide that this gives them a high enough proportion of property in their portfolio.

However, for investors who want to increase their exposure to property, it is possible to diversify into commercial property. This can be done through specialist property funds which are run by professional managers (in the same way as equity or bond funds).

These funds may invest in the UK or internationally, in a variety of different types of property, such as office space, retail outlets or industrial property. These funds earn returns from both rents on the property they own and potential gains in the value of that property.

Cash investments

Cash investments includes cash holdings in bank or building society accounts, as well as investments in money market funds.

The most common types of cash investments are bank and building society saving accounts and money market funds. These offer liquidity – the ability to withdraw cash fairly easily.

While cash investments tend to be the least volatile of the major asset classes, historically they tend to provide the lowest returns. That's why they are often used as places to keep emergency funds, and to save for short-term objectives such as car and home purchases.

Volatility

The extent to which asset prices or interest rates fluctuate over time.

Volatility is often used to assess the potential risk associated with an investment.

Asset allocation and investor types

Every investor will have different goals and their asset allocation will reflect this.

The examples below are illustrative and highlight how different types of investors may choose to structure their investment mix.

Example 1: The wary investor.

An investor in her 30s is saving for retirement, and you might expect her to meet her goal by investing primarily in equity-based funds. But she's wary of the stock market and inexperienced with investing, and sees that equities have suffered recent declines. She finds that she's most comfortable with a portfolio that includes 20% equities and 80% bonds.

Example 2: The dual-income couple.

A dual-income married couple in their 40s want to build up additional savings for retirement in about 20 years. A portfolio that consists of 70% equities and 30% bonds might be appropriate. However, the husband's job (which provides nearly half of their income) has become unstable, and they're anxious about their economic future. So they may settle on a more conservative asset allocation of 50% equities, 40% bonds, and 10% cash.

Example 3: The recently retired couple.

A newly retired couple in their 60s first considered a portfolio of 30% equities and 70% bonds. However, they believe their retirement benefits are ample for their income needs, and they want to build a larger estate to benefit their grandchildren. So they decide on a more aggressive asset allocation – consisting of 50% equities and 50% bonds. Here, the additional risk is expected to generate higher long-term returns.

Asset classes over time

Investment markets move in cycles, reflecting the underlying strength of the economy, industry trends and investor sentiment.

The table shows the annual return of each of the major asset classes over the past twenty years. The highlighted fields shows which asset class performed the best for each year.

You can see that the asset classes have performed quite differently, which shows the importance of diversifying an investment portfolio. The basic principle is simple: combining asset classes that tend not to rise or fall together (known as having relatively low correlation) can potentially reduce your overall risk.

	Equities (%)	Bonds (%)	Cash (%)	Property (%)
1996	1.23	8.59	6.55	18.78
1997	15.71	11.82	7.69	-3.86
1998	16.66	12.57	6.26	-9.28
1999	35.21	1.05	6.08	12.40
2000	-8.41	9.93	5.90	22.81
2001	-13.15	8.34	4.11	-1.26
2002	-25.18	10.71	4.02	-7.04
2003	22.38	5.53	4.04	26.52
2004	9.01	8.04	4.89	28.65
2005	25.34	5.77	4.64	28.99
2006	6.54	3.30	5.32	24.87
2007	9.78	5.76	5.99	-8.52
2008	-19.85	7.59	2.77	-27.62
2009	22.36	5.30	0.61	23.09
2010	18.47	4.82	0.76	24.19
2011	-6.72	5.80	1.08	-5.12
2012	11.91	5.93	0.52	23.00
2013	21.85	0.04	0.53	2.45
2014	10.85	7.92	0.56	23.10
2015	4.01	1.39	0.57	5.85
2016	29.94	0.01	0.50	25.23

Equities are defined as MSCI AC WORLD IMI in GBP (Source: Thomson Reuters Data Stream); bonds are defined as Barclays Global Aggregate, hedged in GBP (Source: Barclays); cash is defined as 3-month LIBOR in GBP (Source: Bloomberg); property is defined as FTSE NAREIT Developed Index, in GBP (Source: Thomson Reuters Datastream)

Past performance is not a reliable indicator of future results

Types of investment management

There are a number of ways you can invest in the asset classes we've described, but one of the easiest is to use a professional investment management company. This section describes the basics.

Using pooled funds

Pooled funds offer the opportunity to create a diversified portfolio.

With a pooled fund, investors combine their money in a fund, which then invests in a range of securities.

Each investor shares proportionally in the fund's investment returns including any income.

Every pooled fund has a manager who invests according to the fund's objective. Depending on this objective, a fund may invest in equities, bonds, property cash or a combination of these assets.

Pooled funds: Potential advantages	Pooled funds: Potential disadvantages
<p>Diversification The holdings of a single pooled fund can range from a few securities to hundreds. This diversification can reduce the risk of loss due to problems in a particular company or industry.</p>	<p>Diversification penalty While diversification eliminates the risk from owning a single security whose value plummets, it also limits the potential for making a significant gain if a security's value increases dramatically. And, most importantly, diversification does not protect you from a loss caused by an overall decline in the financial markets.</p>
<p>Professional management Fund managers have access to extensive research, market information, and skilled traders.</p>	<p>Not bespoke Pooled funds are not bespoke investment portfolios. As a result, they may meet their investment objectives perfectly, but still not meet yours.</p>
<p>Liquidity Shares in a pooled fund can be bought and sold on any business day, so investors have relatively easy access to their money. Exchange Traded Funds (ETFs) and Investment Trusts offer the added benefit of being traded throughout the day.</p>	<p>No guarantees As with many other investments, the value of a pooled fund will fluctuate, so it's possible for investors to lose money if they sell shares for less than they paid for them.</p>

It is important to remember that the value of investments, and the income from them, may fall or rise and investors may get back less than they invested.

The different types of pooled funds

In the UK, there are several different kinds of pooled funds.

- **Unit trust.** A pooled fund established under a trust. A unit trust is an open-ended investment. This means that the manager can create or cancel units depending on public demand.
- **OEIC (Open-Ended Investment Company).** This is a pooled investment fund similar to a unit trust, but established under company law, rather than trust law. As such, it issues shares, rather than units, but these are not traded on a stock exchange, they are issued and traded by the OEIC itself. The OEIC increases or reduces the numbers of shares issued in response to demand from buyers and sellers, which is why it's called 'open ended'.

Pooled funds: key characteristics at a glance

	Fund type		Trading frequency	
	Open ended	Closed ended	Daily	Throughout the day
Unit trust	✓		✓	
OEIC	✓		✓	
Investment Trust		✓		✓
ETF	✓			✓

- **Investment trust.** A closed-ended fund (a fund with a limited number of shares) established as a company, with the aim of producing returns by investing in other companies. Investment trusts trade like shares on stock exchanges and are priced and traded throughout the business day. They can be bought and sold through a stock broker.

- **Exchange Traded Funds (ETFs).** A security, traded on a stock market like an individual share or bond. An ETF represents a basket of assets, such as the constituents of a major stock market index like the FTSE 100. As with investment trusts, ETFs are priced and traded throughout the business day, and they can be bought and sold through a broker. ETFs can be actively managed or indexed, although the vast majority of ETFs currently available are indexed.

Choosing between active and passive managers

In broad terms, investment funds are managed in one of two ways – active or passive.

1 Active managers aim to beat, rather than simply match, the return of a market index or benchmark. There are several techniques an active manager may use. Typically, this is done by taking a top-down or a bottom-up approach.

- **Top-down managers** start by looking at economic trends to help them predict which sectors will prosper in the future. After zeroing in on particular industries, they try to identify their most promising companies.
- **Bottom-up managers** look for outstanding companies in any industry. They assume that a great company will do well even if it's in an industry that's not currently thriving.

2 Index or passive managers aim to closely match the returns of a market index or benchmark. They do this by either purchasing all the shares in the chosen index, or a representative sample of securities which aims to replicate the performance of the index.

Index-tracking fund

An investment fund which aims to replicate the returns of a specified market index.

Looking after your investments

A number of factors influence your portfolio and choices of investments over time. It's worth considering the nature of markets and how to adjust your portfolio over time, if it should become necessary.

Keep market movements in perspective

Whatever assets you invest in, the value of these will rise and fall over time.

The assets you invest in will rise and fall over time as markets are affected by economic, social and political events. But always remember that it's in the nature of markets to fluctuate, sometimes quite dramatically. It's often impossible to explain market movements until long after the dust has settled.

In other words, it is important not to lose sight of your investment objective and speak to your financial adviser before deciding to change your investment approach based on today's headlines and market moods.

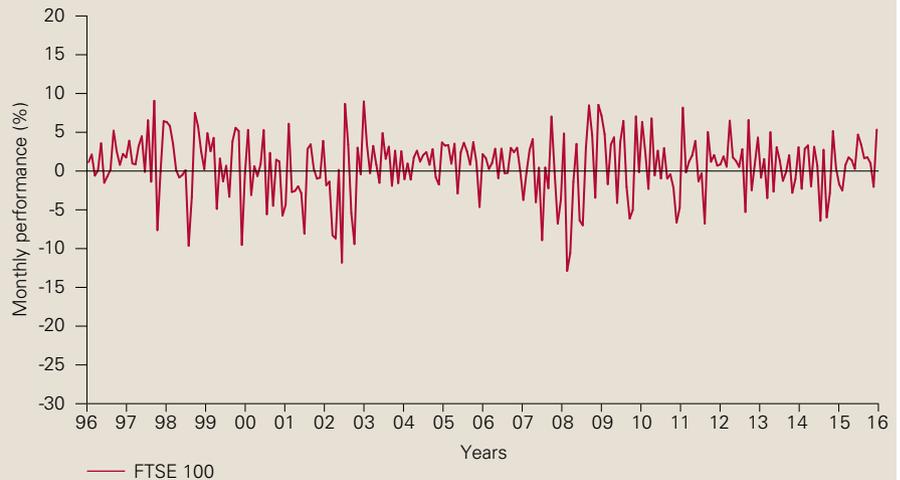
You should remember the old adage that 'it's time in the market, not timing the market' that counts. Timing the markets for the best time to invest – buying and selling tactically for profit – is far easier said than done.

Trying to pick the top and the bottom of the market is not easy. It's hard to sell when everyone is buying. If you sell out at the bottom (which many investors do) you risk being out of the market when it rallies. Even professional fund managers find it difficult to consistently time the markets.

The chart shows just how erratic the stock market can be, and shows the monthly performance of the FTSE 100 Index (the index which tracks the share prices of the UK's 100 largest companies).

Past performance is not a reliable indicator of future returns. The value of investments and the income from them may fall or rise and they may get back less than they invested.

The markets are unpredictable



Source: Thomson Reuters Datastream, 1 January 1995 to 31 December 2016, with gross income reinvested before fees and taxes.

Important information. The performance of an index is not the exact representation of any particular investment. As you cannot invest directly into an index, the performance shown in this table does not include the costs of investing in the relevant index. Equities are represented by the FTSE 100 Index. Basis of performance nav – nav with gross income reinvested. Data as of 01.01.96 to 31.12.16. Source of underlying data is Thomson Datastream. Vanguard analysis

Past performance is not a reliable indicator of future results.

Annual returns over 20 years

The table to the right expands on the figures shown in the graph and illustrates annual percentage returns for the FTSE 100 Index.

Years	% return
1996	16.86%
1997	28.68%
1998	17.47%
1999	20.59%
2000	-8.23%
2001	-14.09%
2002	-22.17%
2003	17.89%
2004	11.25%
2005	20.79%
2006	14.43%

Years	% return
2007	7.36%
2008	-28.33%
2009	27.33%
2010	12.62%
2011	-2.18%
2012	9.97%
2013	18.66%
2014	0.74%
2015	-1.32%
2016	19.04%

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Source of underlying data is Thomson Datastream. Vanguard analysis

Past performance is not a reliable indicator of future returns.

Review and rebalance

You should review your portfolio at least annually to make sure your asset allocation stays on track.

You may decide to review your portfolio, for example if your personal situation has changed, or market conditions have altered. If you do not review and adjust your portfolio in light of changing circumstances, you risk not achieving your investment goals.

During your review, you may decide to rebalance your portfolio – that is, change the proportion of assets you hold. This will involve selling some investments and buying others.

When you rebalance, you need to think carefully about the costs and tax implications. In most cases, such as buying equities or bonds, you will have brokerage costs – and with some pooled funds you may be asked to pay an initial charge or an exit charge. You may also have a capital gains tax liability if a sale of assets means you go above your annual allowance.

Your financial adviser can work with you to determine the best way to rebalance your portfolio.

Three ways to rebalance

If you need to make changes, you could consider rebalancing in three ways:

1. Reinvest dividends. Direct dividends and/or capital gains from the asset sector that has exceeded its target into one that has fallen short.

2. Top up. Add money to the asset sector that has fallen below its target percentage.

3. Transfer. Move funds between asset classes. Shift money out of the asset sector that has exceeds its allocation target into the other investments.

What next?

You can use your understanding of investing to work with your financial adviser to develop your investment plan.

Remember that investing successfully is about knowing what you want, understanding your time frame for investing and your attitude to risk, and then making a plan to help you achieve your objectives.

You should review your plan regularly and rebalance your investment portfolio when necessary.

Finally, always keep an eye on costs. The power of compounding means that you could end up with a much bigger pot of money over the longer term. Talk to your adviser about this.



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